SAB Industries Limited

June 08, 2018

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	4.54 (reduced from Rs. 5.76 crore)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB+; Negative (Double B Plus; Outlook: Negative)
Short term Bank Facilities	27.00 (enhanced from Rs. 25 crore)	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	**31.54 (Rupees Thirty One crore and Fifty Four lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SAB Industries Limited (SAB) continue to remain constrained by its modest scale of operations and concentrated revenue stream. The ratings are further constrained by the competition from the organized and unorganized players in the industry and stretched inventory period. The ratings, however, derive strength from SAB's long track record of operations, experienced management team, comfortable order book and capital structure.

The ability of the company to receive steady flow of orders, timely execute the same and receive the contract proceeds in timely manner shall be the key rating sensitivities. Furthermore, the ability of the company to timely achieve the financial closure for the two planned projects and complete the projects within the time and cost estimates will remain the key rating sensitivities.

Outlook: Stable

The revision in the outlook from 'Negative' to 'Stable' is on account of improvement in the company's operating performance which is reflected in the increasing revenue and improvement in PBILDT margins in FY18 (refers to the period April 1 to March 31) on account of execution of higher margin giving projects.

Detailed description of the key rating drivers

Key Rating Weaknesses

Competitive nature of the industry: The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results into intense competition within the industry. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances and elongated working capital cycle due to longer gestation period of the projects collectively put pressure on the credit profile of the players.

Concentrated revenue stream: The order book of the company is highly concentrated with majority of the projects from the same client- Indian Railways. Though, at present, the company is able to receive payments from its clients in a timely manner, timely realization going forward will be a critical factor for meeting liquidity requirements of the company in the future.

Stretched inventory period: As on March 31, 2017, the operating cycle of the company stood at an elongated level mainly due to high inventory level on account of the stalled Derabassi real estate project. However, the company plans to revive

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

the project in the near future. The average cash credit limit utilization remained at a comfortable level of about 45% for the 12 months period ended April-2018.

Key Rating Strengths

Healthy scale-up of operations with improving PBILDT margins in FY18 and comfortable capital structure: The operating income of the company increased at a healthy rate of ~49% in FY18. However, with an operating income of Rs.32.44 Cr., the scale of operations continued to remain modest. The PBILDT margins of the company also improved in FY17 on the back of execution of better margin giving government projects. However, on account of lower extraordinary income during the year, the PAT margins declined in FY18.

Further, high networth and low debt outstanding, as on March 31, 2018, led to a comfortable capital structure, as on March 31, 2018. The debt levels, however, increased on a year-on-year basis due to higher utilization of the working capital borrowings and unsecured loans availed by the company. The total debt to GCA ratio deteriorated to 28.50x, as on March 31, 2018 (PY: 9.11x) on account of lower extraordinary income during the year. However, interest coverage ratio improved in FY18 on account of improvement in the operating profits during the year. The cash flows in FY18 were also supported by realisation of past claims amounting to Rs.8.61 Cr.

SAB was also developing a multi-storied residential housing project, on a 6.7 Acres of land, by the name "Steel Strips Tower", Derabassi, on the Chandigarh-Ambala Highway. Though, the construction on the same was put on hold since 2011 due to the subdued industry scenario, the company now plans to revive the same in the near future. The total project cost of ~Rs.144 Cr. (out of which ~Rs.36 Cr stands incurred) is proposed to be funded through a term loan of Rs.50 Cr. (yet to be tied-up), promoters' contribution of ~Rs. 53 Cr. and remaining through customer advances. The company is also planning to set-up a bio-gas plant in Punjab at a total project cost of Rs. 16.50 Cr, proposed to be funded through a term debt of Rs. 11.55 Cr. and remaining through the internal accruals generated/ promoters' contribution of Rs. 4.95 Cr. The company has already incurred a cost of ~Rs. 3.35 Cr. on the project, as on March 31, 2018, from the internal accruals generated and realization of claims recoverable in FY18. The Power Purchase Agreement (PPA) for the project is yet to be signed. The ability of the company to timely achieve the financial closure for the two projects and complete the projects within the cost and time estimates will remain the key rating sensitivities.

Long track record with operations coupled with an experienced management team: SAB has been in operations since the year 1983. The company is essentially controlled by the promoters who have considerable experience in EPC (Engineering, Procurement & Construction) of infrastructure projects. The Managing Director of the company, Mr R K Garg, has an industry experience of more than three decades. He is ably supported by a team of professionals, who have extensive experience in their respective domains.

Comfortable order book position: The confirmed orders with the company (to be executed in the next 12 months) stood at Rs.35.99 crore, as on March 31, 2018.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
Rating Methodology for Infrastructure Sector Ratings
Criteria for Short Term Instruments

Company Background

Incorporated in the year 1978 as SA Builders Ltd (SABL), the name of the company was subsequently changed to SAB Industries Ltd (SAB) in the year 1983. SAB is primarily engaged in the field of civil construction for multistoreyed housing colonies, hospitals, industrial buildings, flyovers, shopping malls, thermal power plants, hydel power & infrastructure projects, etc., on a turnkey basis. The company belongs to the Steel Strips group of companies which is engaged in the manufacturing of automobile wheels, acrylic fiber and civil construction.

SAB has a group concern- Steel Strips Limited (SSL) which was earlier engaged in manufacturing of Hot Rolled (HR) and Cold Rolled (CR) sheets, however, there are no on-going operations as on date. The businesses of SAB and SSL are proposed to be amalgamated, for which necessary approvals are awaited from the regulatory authorities.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	21.82	32.44
PBILDT	1.39	3.27
PAT	4.55	0.40
Overall gearing (times)	0.13	0.17
Interest coverage (times)	0.88	1.39

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April-2021	2.04	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	2.50	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	27.00	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2.04	CARE BB+; Stable	-	1)CARE BB+; Negative (21-Jul-17)	1)CARE BB+ (18-Jul-16)	1)CARE BB (29-Jul-15)
2.	Fund-based - LT-Line Of Credit	LT	-	-	-	1)Withdrawn (21-Jul-17)	1)CARE BB+ (18-Jul-16)	1)CARE BB (29-Jul-15)
3.	Fund-based - LT-Cash Credit	LT	2.50	CARE BB+; Stable	-	1)CARE BB+; Negative (21-Jul-17)	1)CARE BB+ (18-Jul-16)	1)CARE BB (29-Jul-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	27.00	CARE A4+	-	1)CARE A4+ (21-Jul-17)	1)CARE A4+ (18-Jul-16)	1)CARE A4 (29-Jul-15)

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